

Apprenticeships

CIPD response to the Sub Committee on Education, Skills and the Economy

Chartered Institute of Personnel and Development (CIPD)

March 2016



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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Additional information – CIPD and apprenticeships

The CIPD initiated the new HR Trailblazer Apprenticeship standards in 2014, assembling a group of employers to develop these, including M&S, Barclays, NHS Employers, Peninsula, Capita, HSBC, and the Cabinet Office. The group met throughout late 2014 and 2015 to develop standards for apprentices, and to design a suitable approach to assessment. The group has now created apprenticeships at two levels:

- HR Support (developing foundation level knowledge, skills and behaviours)
- HR Consultant/Partner (developing intermediate level knowledge, skills and behaviours)

CIPD is currently working with the Skills Funding Agency (SFA) to ensure an appropriate level of government funding towards these new apprenticeships, and hope that they will be available to employers and students in late 2016.

The CIPD currently employs three apprentices who are studying for level three apprenticeships in business administration.

Executive summary

The target of three million apprenticeships by 2020, how the government proposes to achieve this and how this may affect the 'skills gap'

Evidence from the recent UKCES Skills survey (2015) suggests that under-utilisation of people's existing skills and poor people management is as big a skills problem for the UK as addressing skills shortages.

The quality of leadership and people management within organisations dictates how employers make decisions about investment in skills and the extent to which they think strategically about their talent pipeline. This demand side of the skills gap facing the UK must be addressed if there is going to be a step change in the numbers of employers investing in apprenticeships and the quality of programmes.

Consequently, the drive to increase the numbers and quality of apprenticeships has to include a more explicit focus on increasing demand for investment in apprenticeship programmes among employers – particularly small employers.

In the CIPD's view, in order to encourage and support more small employers to utilise apprenticeship levy funding via the Digital Apprenticeship service there needs to be much better support at a local level delivered via Local Enterprise Partnerships (LEP) and Business Growth Hubs to advise and support SMEs through the process.

Take-up of apprenticeships amongst 16-19 year olds and steps that can be taken to make more young people aware of available opportunities

The high proportion of level 2 apprenticeships in relation to level 3 and above apprenticeships devalues the apprenticeship 'brand' and undermines attempts to achieve parity of esteem between academic and vocational routes into employment.

There needs to be greater partnership with Higher and Further education and some provision currently delivered in Higher Education (HE) as degrees instead being through apprenticeships. In addition, as stated above, more education providers need to work with employers at a local level to help build demand for investment in advanced and higher level apprenticeships.



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Longer term, we think there needs to be a wide-ranging re-appraisal of the support provided by the taxpayer to both HE and vocational education and training to determine whether the current balance of funding remains appropriate. Lord Browne's review prior to the raising of university tuition fees provides a precedent for this.

The proposal for an apprenticeship levy and how this may be implemented

The apprenticeship levy risks creating a number of unintended consequences, including investment being taken away from other forms of workforce training and development, and potential 'gaming' where employers use levy funding to accredit existing low level training as apprenticeship programmes.

CIPD believe there is a case for levy funding to be weighted to level 3 and above apprenticeships as a means for encouraging employers to more invest in Advanced and Higher Level apprenticeship programmes.

It is important that the Apprenticeship Delivery Board and the Institute for Apprenticeships are aware of the potential risks and unintended consequences of the levy and take steps to address these.

Response

The target of three million apprenticeships by 2020, how the government proposes to achieve this and how this may affect the 'skills gap'

The CIPD supports the Government aspiration of creating more and better apprenticeships by 2020 as a means of equipping people with the skills they need in the labour market, meeting skills shortage where they exist and encouraging employers to invest in skills development.

Apprenticeships can help address part of the skills gap facing the UK employers however, it is important to recognise that skills shortages are just one aspect of the skills challenge facing this country. Evidence from the recent UKCES Skills survey (2015) suggests that under-utilisation of people's existing skills and poor people management is as big a skills problem for the UK as addressing skills shortages.

The quality of leadership and people management within organisations dictates how employers make decisions about investment in skills and the extent to which they think strategically about their talent pipeline. This demand side of the skills gap facing the UK must be addressed if there is going to be a step change in the numbers of employers investing in apprenticeships and the quality of programmes. This is particularly true of small employers, which are less likely to invest in young people and apprenticeships because they tend to think short-term, are risk averse and resource poor. Many SME owner managers have little or no management training, so are less likely to understand the value of investing the time to on-board or train an apprentice. In the CIPD's view, in order to encourage and support more small employers to utilise apprenticeship levy funding via the Digital Apprenticeship service, there needs to be much better support at a local level delivered via LEPs and Business Growth Hubs to support SMEs through the process.

The CIPD has been piloting three HR support schemes to small businesses in Hackney, Stoke and Glasgow with funding from JP Morgan's *New Skills at Work* programme, which is seeking to address this demand side challenge and raise the ambition of SMEs and their capability to invest in skills, including through apprenticeships. HE and FE providers have a key role in working within these local skills 'eco-systems' and working with employers to understand their skills needs and prompting demand for investment in apprenticeships.

Current levels of apprenticeship provision and consistent evidence of UK under-investment in workforce skills means the UK probably would benefit from an increase in the number of apprenticeships. However, this depends upon there being sufficient demand from employers to make effective use of the skills developed. Even if demand is there,



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employers may not have the capacity to offer significantly more apprenticeship places without compromising their quality or workplace relevance.

With apprenticeships, quality is as least as important as quantity. Unless the overall quality of apprenticeships improves over the next five years, as well as numbers, achieving the three million target by 2020 will be a Pyrrhic victory. A drive for numbers over quality will further devalue the apprenticeship brand and exacerbate the skills gap that the Government is trying to address.

With both public funds and system capacity limited, there is a risk that expansion of places could compromise their quality. This could be visible – with a higher proportion of places being short duration and at Intermediate level, perhaps with more employers re-badging existing in-house training as apprenticeships. But quality can also deteriorate invisibly, arising through reductions in the effort and attention given to learners, less challenging assignments and less rigorous assessments. Even if quality assurance regimes are effective and are not compromised by knowing the target exists, their capability to maintain standards may be challenged by the additional volume.

The Sub Committee should hold the Government to account on progress towards the 3 million target because it is relevant to increasing the economic and social benefits of apprenticeships. The Sub Committee can show leadership by making it clear that delivery of 3 million starts is not the over-riding priority; that the Sub Committee would not deliver an assessment of the Government's record without considering a broader range of evidence and considerations. Indeed, the Sub Committee could develop alternative metrics as part of the process; for example, a quality-adjusted target for starts, where the level is used as a proxy measure for quality. CIPD has suggested that levy funding could be weighted to encourage employers to invest more in level three and above apprenticeships. CIPD would be happy to provide technical assistance if the Sub Committee wished to take this proposal forwards.

Take-up of apprenticeships amongst 16-19 year olds and steps that can be taken to make more young people aware of available opportunities

The role of Apprenticeships in the transition from full-time education to employment

Apprenticeships have an especially important role in supporting the transition from full-time education into paid work. We believe the UK's aspiration should be that all young people leaving full-time education have the opportunity to develop their career by taking up a place in Higher Education or by embarking on a high-quality apprenticeship. This is an aspiration which appears to command widespread political support across the political spectrum and across the UK.

Turning aspiration into reality requires “parity of esteem” between apprenticeships and HE. This is an important concept – few young people are likely to be enthusiastic about apprenticeships if they are seen as something that people only do if they're not smart enough to get into Higher Education. But it is also an elusive concept, difficult to define and measure. Legislation restricting the “inappropriate” use of the terms “graduate” and “apprentice” may occasionally prevent misleading use of the terms to describe things they are not, but it's not a solution to the broader problem. Esteem doesn't just depend on a young person's view of the two options, it also depends on the values and perceptions of those who they listen to and who exert conscious or unconscious influence over them. Friends and family are obviously important, but so are sources of advice and guidance, such as teachers and community workers, as is the availability of role models they can identify with. Esteem will depend, to an extent, on the personal economic benefits (improved employment prospects, higher earnings) as well as the costs (possibility of low earning while undergoing an apprenticeship versus absence of student debt). Esteem will also be influenced by the perceived acceptability of *not* going into Higher Education and the personal merits and social status of a particular scheme, a particular industry or a particular employer. The perceived rigour of apprenticeship-related qualifications is a factor: are they regarded as *really* equivalent to other vocational and academic qualifications? Will they “hold their value” over time or with a change of job or employer? Young people may also be thinking longer-term: are there credible opportunities to progress to more advanced learning opportunities and better jobs?

Academic qualifications and a university education have enjoyed superior status over vocational qualifications and work-based learning in Britain for at least 200 years, so movement towards parity of esteem is a challenge. Much effort has gone into producing and disseminating information about apprenticeships and the benefits they bring to both apprenticeships and employers, not least through National Apprenticeship Week. That collateral needs to be regularly updated and packaged in terms and through channels that

raise awareness among young people, employers, key sources of advice and guidance and key influencers (such as parents). This information must also be objective; that means explicit recognition that the benefits of an apprenticeship will vary according to factors such as its level, the actual and perceived rigour of the work-based learning, its assessment and the particular qualification awarded, the job role, the industry and the particular employer and education provider. This is no different from Higher Education: the “graduate wage premium” is an average and varies according to the individual university attended, degree class obtained and course studied. Some Higher Education graduates will “lose money” from making that choice, affecting their evaluation of the experience.

Perceptions of apprenticeships are changing, in part because of employers such as Rolls-Royce, BAE and Siemens, which have degree-level apprenticeship programmes, and employers such as KPMG and Deloitte creating Apprenticeship programmes designed to be credible alternatives to their existing graduate programmes. These schemes are prominent in promotion material and demand for them is high.

The problem is these are not typical apprenticeships. In 2014/15, 344,000 UK-domiciled students began their first year of full-time study at a HE establishment in England, with the vast majority studying for a first degree. In the same year, just 5,300 people under the age of 25 began a Higher Apprenticeship in England. Another 280,000 started intermediate or advanced-level apprenticeships; whatever their merits, they do not lead to degree-level.

CIPD has published research that suggests there is persistent and high levels of over-qualification among the UK workforce.¹ This may mean that participation in Higher Education currently exceeds its economic optimum, although two other factors are also likely to be important. One is that university may be a less effective environment than the workplace to develop some work-relevant skills. Alternatively, employers may lack the business models, resources, leadership and management capability to create high-skilled roles and make the most of existing workforce skills. This would also explain the lack of higher-level apprenticeships: creating and managing these is demanding in terms of time, money, management ability and in-house technical and training capacity.

The Government and all education providers, including employers, also need to develop an effective and credible response to the OECD’s review of Basic Skills in England. The review was commissioned by the Department for Education (DfE) because of the woeful results of the OECD 2012 Survey of Adult Skills, which found higher levels of literacy and numeracy competency among 55-64 year olds in England and Northern Ireland than among 16-24 year olds; in other words, no improvement over a 30 to 40 year period. Quite correctly, the OECD say schools should bear primary responsibility for improving young people’s literacy and numeracy. But colleges, Higher Education and



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employers offering apprenticeships should accept a secondary responsibility for young people who, for whatever reason, leave school with inadequate basic skills and find their way into college, university or onto an apprenticeship. The recent announcement in the Budget of compulsory Maths until age 18 is welcome and there is a good case for extending it to English. But it might not fit easily with the content or learning style of some apprenticeships, and assistance should be available to help employers make adjustments and improvements if required.

It is difficult to predict the likely outcomes of a system that was economically efficient, inclusive and based on parity of esteem. We think such a system must involve a step change in provision of advanced and particularly higher apprenticeships. Of course, it may be better for some young people to embark on a shorter apprenticeship, leading to a lower level qualification, perhaps because of setbacks at school or other personal issues that would make an apprenticeship at level three or above too daunting (and which may make it easier for them to find an employer willing to take a chance on them). Other young people may not have well-developed career aspirations and prefer options that give some flexibility without having to drop out of a course. Also, some employers may be able to offer a high-quality learning environment but may not have the business need, resources or expertise to offer full-blown higher apprenticeships.

The current ratio of approximately 55 lower level apprenticeships for every higher level apprenticeship is far too low. The challenge is how to increase the number of higher apprenticeships ten- or twenty-fold, possibly even more, without destroying both quality and reputation. Employer exhortation is unlikely to deliver, nor will financial incentives alone.

There needs to be greater partnership with Higher and Further education and some provision currently delivered in Higher Education as degrees instead being through apprenticeships. In addition, as stated above more education providers need to work with employers at a local level to help build demand for investment in advanced and higher level apprenticeships.

Longer term, we think there needs to be a wide-ranging re-appraisal of the support provided by the taxpayer to both Higher Education and vocational education and training to determine whether the current balance of funding remains appropriate. Lord Browne's review prior to the raising of university tuition fees provides a precedent. A review should be open enough to enable vigorous and informed public discussion, but grounded enough to deliver practical options capable of being implemented swiftly. A review commencing later this Parliament, delivering interim findings before the 2020 election and delivering

final recommendations in time for the ensuing Spending Review would seem useful and workable.

The proposal for an Apprenticeship Levy and how this may be implemented

The vast majority of apprenticeships involve some element of government-funded support; in 2013/14, 410,000 apprenticeship starts in England were government-funded, 87% of total starts. Expansion of apprenticeships while maintaining quality requires more financial support, either from the taxpayer or from employers (or, potentially, from apprentices through loans). There is concern that some employers have re-badged existing staff development activities as apprenticeships in order to access public funding, with little or no real improvement in the learning experience or skills developed. Training levies are a way of raising funds for training that prevent employers from free-riding and reduce (but do not eliminate) “gaming” by giving employers collective control over the content of training and its allocation. The concept went out of fashion in the 1980s in the UK, although a small number of bodies survived and continue to operate, most notably the Construction Industry Training Board (CITB). It has proved a more durable model in other countries, so its announcement in the summer 2015 Budget was unexpected but not an unreasonable response to tight public expenditure constraints and the 3 million target. Employer reaction has been mixed. A CIPD survey of employers in September 2015 found that four in ten (39%) of large employers (250 plus employers) in favour of the levy in principle, 31% opposed and a further 30% undecided. In all, 44% of large employers agree a proportion of levy funding should go towards funding apprenticeship training by small employers that have not paid the levy, with 33% disagreeing and 23% undecided. In addition, 30% of employers said the levy would encourage them to develop an apprenticeship programme to develop key skills and 30% believed the levy would increase the quantity of apprenticeships,

The initial impact of the announcement of the levy may have been limited because the National Living Wage (NLW) was also announced towards the end of the Chancellor’s statement. Since the announcement, and especially as implementation of the NLW gets nearer, more and more employers appear to be making a connection between the NLW, the apprenticeship levy and pension auto-enrolment (which is being rolled out this year to small firms with the additional possibility of increases in minimum contribution rates during this Parliament). Most large employers will be affected to some extent by all three.

The combination of the NLW and the Apprenticeship Levy can be seen as giving businesses the incentive to focus on raising productivity – including development of

workforce skills – rather than adapting by cutting other costs (such as non-wage costs, bonuses or training budgets). Recent research we published in collaboration with the Resolution Foundation, looking at how employers propose to adapt to the National Living Wage, found that almost a third of employers were planning to increase productivity and efficiency, in preference to cutting jobs or other labour costs.² However, follow-up interviews with a sample of employers in low-paid sectors suggest there may be a gap between intentions and delivery, with many employers not knowing how to improve their productivity, or lacking the skills to deliver it.

Employer reactions to the Apprenticeship Levy appear have become more critical over time, with the predominant narrative portraying it as one of a series of government-imposed increases in labour costs (as shown in the Budget submissions of all the leading employer bodies).

While the operation of the Levy and its financial impact on employers are easy to understand and predict, arrangements for how employers can access the digital accounts and spend “their” money are not as developed and employers struggle to visualise how it might work in their organisation. While the Levy applies to the UK, the arrangements for accessing the funding are likely to be different in each of the four countries, increasing complexity for employers who operate across the UK. Changes in the delivery landscape, such as withdrawal of funding from UKCES and the creation of the Institute of Apprenticeships, have been accompanied by steps towards devolution in some parts of England. These changes could improve the overall effectiveness and responsiveness of both apprenticeships and skills policies more generally, but there is a good chance of a period when change could diminish the effectiveness of both outgoing and incoming organisations, while placing additional demands on employers’ capability to contribute to an employer-led system.

The ability and willingness of employers to discharge the responsibilities being delegated to them is questionable anyway. More change, more distractions, more demands for money – all accompanied by pressure to do their bit in meeting the 3 million target – seem unlikely to tap new sources of employer enthusiasm and commitment. The Levy might encourage employers with sufficient capacity and patience to make an employer-led system one that operates to their own advantage rather than for employers as a whole.

Our particular concern at this stage is the impact of the Levy on employers’ broader learning and development (L&D) activities. According to the 2015 Employer Skills Survey, employers spend £45 billion a year on training, most of it spent by employers who will have to pay the Levy. This is fifteen times the sum expected to be raised through the Levy, £3 billion a year, but it doesn’t mean the impact on L&D has to be marginal. Much will

depend on how employers view the Levy and arrangements for accessing the funding as well as how organisations are structured and managed.

One scenario is where firms see the Levy as another cost of employment, like the NLW, with operational managers expected to manage it as they would any other cost pressure. There might be less pressure on training budgets – where these exist and are held centrally – but there is a risk that management may deal with the consequences by cutting costs.

Alternatively, top management might see the levy as something for HR to deal with, starting with a corresponding cut in existing L&D budgets and/or continuous pressure to ensure the organisation gets its money back, preferably more. The CIPD's survey of employers attitudes to the Levy found that 30% thought the Levy would have the effect of taking investment away from other areas of workforce investment and training.

Depending on the arrangements and for accessing funds, there will be some distortion to employers' activities. A change in the level of employer L&D activity is the objective behind the Levy, but the catch is that this additional activity must be an apprenticeship in order to attract funding. There is ample scope for "gaming". In our response to the Government consultation³, CIPD suggested that access to funding should be quality-weighted in some way; if every apprenticeship place created by an employer attracts the same contribution from the digital account, some employers would create as many short, duration low-quality apprenticeships as they thought they could get away with. This could be done by re-packaging existing non-apprenticeship L&D activity or turning any existing high-quality, long-duration apprenticeships into a series of smaller ones.

Not all employers will act in this way; it is likely that employers already committed to apprenticeships may be less opportunistic than those developing apprenticeships primarily to improve their financial position.

However, it is important that the Apprenticeship Delivery Board and the Institute for Apprenticeships are aware of the potential risks and unintended consequences of the levy and take steps to address these.

The need for more rounded and better-connected policies

Apprenticeships and Higher Education, between them, account for the lion's share of the UK Government's investment in post-18 skills; they similarly dominate the Government's thinking and priorities, not least because of the 3 million target. There is a danger that the Government's thinking becomes even more focused on apprenticeships and the under 25s, to the extent that future workforce skills policies consist of apprenticeships (with priority given to under 25s) and little else.

The Spending Review contained some measures that support individuals seeking to refresh or upgrade existing job-relevant skills or acquire new skills during the 40 to 50 years of working life they can expect on completion of their initial burst of government-supported investment (via Higher Education or an Apprenticeship). Loan support for taught post-graduate degrees and an extension in public support for those wishing to undertake a second degree at some stage in their life are welcome, as is the maintenance of budgets for the FE sector (albeit in cash terms) and for Career Development Loans. We suspect more investment will be needed in the medium to long term and there is a good case for broadening eligibility, especially in the privilege given to STEM subjects. But at least the policy instruments are still there and capable of being improved and expanded as needs and resources allow.

In our Manifesto for Work⁴, we recommended that government undertake a fundamental review of skills policy. One aim would be to consider how the UK can develop an infrastructure and culture capable of turning lifelong learning from an aspiration into a reality for everyone. We don't have a blueprint for how this can be done, although we have some ideas on what might be needed. Individuals are likely to have taken (even) more responsibility for investment in themselves; people are likely to need access to impartial and relevant information, advice and guidance (IAG) throughout their lives. Current policies to strengthen IAG for young people and introduce better IAG for older jobseekers are important steps in repairing a weak infrastructure made much less effective by past policy mistakes, but they will need continuous improvement and enhancement.

We need a more comprehensive skills policy making stronger and deeper connections with other policy domains. The Government's *Productivity Plan* has a blind spot when it comes to the workplace. Its discussion of skills is focused almost entirely on their supply, through Higher Education and apprenticeships, rather than on the demand for them. We have argued for stronger connections between skills and industry policy.⁵

There seems little connection with Department for Work and Pension's (DWP) agenda, which is unfortunate given the importance of opportunities to develop skills and progress in



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helping to reach the government's goal of full employment and reduce the cost of welfare payments.

Both the 3 million target and the Apprenticeship Levy show the risks attached to “eye-catching” policies developed in a closed or *ad hoc* way and announced to great fanfare. The fanfare makes it even more difficult for a government to drop or make wholesale changes to the original policy. A lack of forethought and consultation often means that elements of the policy are more likely to be ineffective or unworkable, together with a lack of detail on the practicalities of implementation. The Apprenticeship Levy also shows that policies developed by the UK government need to give serious consideration to the impact on the devolved governments, even if they appear to be reserved matters (such as taxation).

CIPD
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¹ CIPD (2015). *Over-qualification and skills mismatch in the graduate labour market*. London: Chartered Institute of Personnel and Development. Available at: <http://www.cipd.co.uk/publicpolicy/policy-reports/overqualification-skills-mismatch-graduate-labour-market.aspx> [Accessed 18 March 2016].

² CIPD / Resolution Foundation (2016). *Weighing up the wage floor: Employer responses to the National Living Wage*. London: Chartered Institute of Personnel and Development. Available at: https://www.cipd.co.uk/binaries/weighing-up-the-wage-floor_2016-employer-responses-national-living-wage.pdf [Accessed 18 March 2016].

³ CIPD (2015). *Apprenticeships levy: employer owned apprenticeships training – Submission to the Department for Business, Innovation and Skills*. Available at: <http://www.cipd.co.uk/publicpolicy/consultation-responses/apprenticeships-levy.aspx> [Accessed 18 March 2016].

⁴ CIPD (2015). *Manifesto for work: A policy programme to champion better work and working lives*. London: Chartered Institute of Personnel and Development. Available at: <http://www.cipd.co.uk/publicpolicy/policy-reports/cipd-manifesto-for-work.aspx> [Accessed 18 March 2016].

⁵ CIPD (2014). *Industrial strategy and the future of skills policy: The high road to sustainable growth*. London: Chartered Institute of Personnel and Development. Available at: https://www.cipd.co.uk/binaries/industrial-strategy-and-the-future-of-skills-policy_2014.pdf [Accessed 18 March 2016].